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Academic Foresights

Eurogroup

How do you analyze the present status and situation of the Eurogroup?

Since the launch of the final stage of the European Union's (EU) Economic and Monetary Union (EMU) at the end of the 1990s the Eurogroup has assumed a central role in the political steering of this project. Next to the European Central Bank (ECB), the Commission, the ECOFIN Council and the European Council the group is among the core institutions of EMU. The meetings of the Eurogroup are closely watched by the media and financial markets. The Eurogroup runs the regular process of economic policy coordination between the euro area member states and the Commission. The ECB is represented too. The group has shaped the practical implementation of core coordination instruments and EMU policy objectives. It has been involved in historical policy and institutional decisions related to the application and revision of the Stability and Growth Pact (SGP), the reform of the EU Treaties and, more recently, the provision of large-scale financial assistance for member states facing the risk of default.

The Eurogroup was created by a European Council decision in 1997 as an informal forum for close policy dialogue among the most relevant decision-makers in the euro area. It was not assigned any legislative decision-making competences. Its members include the finance ministers of the countries having adopted the euro as their currency, the commissioner for economic and financial affairs and the president of the ECB. The initial motivation for setting up the Eurogroup as an informal forum was two-fold.

First, EMU implied an unprecedented coordination challenge for euro area governments and the relevant EU-level institutions. The only binding policy rule established at the EU-level – the requirement to avoid excessive government deficits – was of a rather fragile nature and its implementation relied on a complex decision-making procedure which reserved considerable room for political discretion on part of the member states. In such a decentralised context of decision-making close coordination among the most important actors becomes vital. The aim was to create an intimate setting for confidential face-to-face debate and remove the procedural red-tape of the formal meetings of finance ministers within the Council of the European Union. Eurogroup meetings only comprise the top-level decision-makers



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themselves. The finance ministers are accompanied by only one adviser. With this informal working method the Eurogroup introduced a novel approach to EU decision-making at the level of ministers (Puetter 2006). The Eurogroup experience is instructive for other areas of EU decision-making which predominantly rely on policy coordination.

Second, the creation of the Eurogroup as a separate meeting format outside the regular Council structure was a reflection of the multi-speed integration process within this policy field. The EU is divided in member states which have introduced the euro, those which do want to introduce the euro as soon as they fulfil the necessary criteria and those member states which categorically reject joining the single currency in the foreseeable future. The United Kingdom is the most vocal member of the latter group. Denmark and Sweden take a more moderate approach on the issue although they currently do not actively pursue membership for domestic political reasons. The creation of a separate group outside the Council is an expression of the determination by euro area member states not to be hold back in their decision-making by other member states.

Overall, the Eurogroup proved to be the right approach to collective decision-making in the first decade of EMU. It established itself as the virtual centre of EMU economic governance. It largely overtook the role originally assigned to the ECOFIN Council by the Maastricht Treaty. Its informal character allowed overcoming the institutional difficulty of establishing dialogue between the independent ECB and those responsible for economic policy, i.e. the member states and the Commission. Most importantly, the Eurogroup allowed for consensus formation among euro area finance ministers and the Commission. It contributed to the emergence of a new style of intergovernmentalism in EU governance – a deliberative intergovernmentalism – which involves scrutinising domestic policy decisions collectively and developing common policy responses under conditions of uncertainty.

In your opinion, how will the situation likely evolve over the next five years?

The Eurogroup is evolving. The basic parameters according to which the group started to function still apply. Economic governance in the euro area relies on a decentralised decision-making architecture and is far from being centralised at the supranational level. Yet, the concentration of collective decision-making processes at the level of the Eurogroup has not been without consequences for the group itself and how it relates to core EU institutions. Hodson (2011) speaks of the “rise and fall of the Eurogroup” and argues that the informal group of finance ministers has to some extent become the victim of its own success. The Eurogroup’s ability to forge euro area consensus meant that although the group enjoyed no formal decision-making powers it could dominate the ECOFIN Council. In other words, this also

implied that the Eurogroup became responsible for taking the final decision. Moreover, the group was the first forum to introduce the office of an elected president in order to strengthen the internal organisation of its work and improve its external representation.

The Lisbon Treaty consolidates this process of creeping formalisation of the Eurogroup and recognises the role of the group. The Treaty expands the scope of decisions on which the euro area countries can decide amongst themselves. This formalises the practice of de facto domination of ECOFIN through the Eurogroup. Although the Eurogroup's informal working method still remains intact, discussions among finance ministers, the Commission and in particular with the ECB are at risk of becoming less frank. The other major challenge stemming from the Eurogroup's early success is that the heads of state and government of the euro area member states are less and less prepared to allow finance ministers to have the final say on key decisions in the field of euro area economic governance. Again, tighter control of Eurogroup decision-making through the 'heads' is seen as undermining the Eurogroup's ability to foster consensus around core EMU policy orientations among finance ministers (Begg 2008; Hodson 2011).

Indeed, euro area decision-making in response to the financial crisis reveals a new European deliberative intergovernmentalism (Puetter 2012). As much as the evolution of a close policy dialogue among euro area finance ministers became a defining feature of the first decade of the Eurogroup's existence, the salience and consequences of EU-level economic governance for domestic policy-making has triggered a similar process at the level of the European Council. Moreover, the heads of state and government of the euro area countries have established the format of Euro Summit meetings – thus, replicating the original Eurogroup process at the level of European Council decision-making. They also established a clear hierarchical relationship between themselves and the Eurogroup (Euro Summit 2011).

The Eurogroup has always received guidance from the European Council but the creation of new structures in the wake of the financial crisis and the central importance of European Council and Euro Summit decision-making for the day-to-day management of euro area economic governance have consequences for the role of the Eurogroup and will influence its internal dynamics. The Eurogroup will play a key role in preparing and pre-negotiating European Council decision-making.

Yet, these developments should not affect the overall importance of the group. To the contrary, it is foreseen to expand the role of its elected president. The office is likely to be turned into a full-time position following the model of the European Council president established by the Lisbon Treaty. The Eurogroup preparatory infrastructure is being enhanced too. As the coordination agenda in the field of economic governance is expanding, there will be more work for the Eurogroup.

economic governance is expanding there will be more work for the Eurogroup. Finally, the establishment of financial support mechanisms for the euro area will further increase the level of formal or de facto formal decision-making the Eurogroup has to deal with. The next five years will be a period of reorientation and adjustment but they also should reveal how these developments impact on the overall character and role of the group.

What are the structural long-term perspectives?

The Eurogroup reflects an unconventional and pragmatic approach towards governing EMU. Its creation was not based on a Treaty mandate in the first place but was pushed through by the future euro area countries in response to insurmountable differences over the role of EMU within the wider integration process in particular with the United Kingdom. The financial crisis triggered a series of new encounters with this aspect of the Eurogroup's past. As before ad-hoc institutional fixes such as the creation of Euro Summits and the retreat to contractual arrangements between euro area member states outside the core EU institutions will characterise the near future of the Eurogroup and the wider context of economic governance. Whether this will also be the long-term prospect is less clear.

Today's larger EU is different from the EU-12 which adopted the Maastricht Treaty. The financial crisis also revealed that matters of financial regulation, the resolution of banking crises and external representation at the G20 affect all EU member states. Important new member states such as Poland find it increasingly frustrating to be left out of decision-making related to these issues and to decisions shaping the future of the euro itself – a project they will join in the future. Denmark and Sweden – although they hesitate to join the euro area – have actively promoted closer EU-wide economic policy coordination.

Developing further the Eurogroup and the Euro Summits as the euro area's core decision-making forums on the basis of a decade old conflict over EMU between the United Kingdom and the original euro area member states may prove being an approach which is not sustainable for much longer. We therefore may see some repatriation of euro area decision-making processes into the 'regular' EU institutions in the long run.

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